

**FINANCIAL ASSISTANCE TO LOCAL BODIES
AND OTHERS**

**CHAPTER-VII
(AUDIT PARAGRAPHS)**

**SIKKIM STATE CO-OPERATIVE SUPPLY AND
MARKETING FEDERATION LIMITED**

7.4 Loss to Government due to irregular purchase procedure

Non-adoption of established purchase procedure and blatant disregard of codal provision in the purchase of HDPE pipes by the SIMFED resulted in a loss of Rs. 12.15 lakh to the State exchequer.

7.4.1 Irrigation and Flood Control Department (IFCD) placed an indent on Sikkim State Co-operative Supply and Marketing Federation (SIMFED) on 01 November 1999 for supply of 15,000 mtrs of HDPE 90 mm dia pipes. On 16 November 1999, IFCD communicated to SIMFED its revised requirement comprising HDPE pipes of 90 mm dia (6750 mtrs), 160 mm dia (1900 mtrs) and 225 mm dia (725 mtrs). On the same day (16 November 1999), SIMFED placed a supply order worth Rs.38.65 lakh with a Siliguri based supplier after collecting rates from five suppliers (including the supplier 'X' from whom purchased) through verbal requisition. The purchases were made without inviting quotations or giving wide publicity in newspapers so that competitive rates could be obtained.

7.4.2 It was seen (March 2001) that similar type and size of pipes were also procured by the State Trading Corporation of Sikkim (STCS) during 1999-2000 from a Bhutan based manufacturer at a much lower rate through its dealer operating in Gangtok. While collecting quotation from the local suppliers, SIMFED had excluded this dealer from its list of potential suppliers and it had also not cross-checked the rates it had obtained with the STCS to ascertain their reasonableness. Had SIMFED purchased the pipes at the rates of STCS, the cost would have been Rs.26.50 lakh only. Violation of purchase procedures by SIMFED resulted in a loss of Rs.12.15 lakh to the State exchequer.

7.4.3 In its reply (July 2002), the SIMFED while skirting the issue of not calling for quotations through wide publicity or the exclusion of the manufacturer's Gangtok based dealer from its potential suppliers, however, enclosed a copy of letter from the manufacturer of the pipes supplied by supplier 'X' which stated

that the higher rate charged was due to the superior grade of material used in the HDPE pipes. The reply appears to be an afterthought as the same manufacturer had notified lower rates to the State Finance Department during March 2000 (rates effective June 1998) for similar size and pressure class of HDPE pipes, with the advice to ensure that its agent/dealer supply the material without any deviation from its notified price list. Further, no mention of grading of pipes on the basis of quality of material used was ever made by the manufacturer earlier. Besides, since the IFCD did not stipulate the grade of pipes it required, and the quality of pipes supplied by STCS to other departments was acceptable to them, there was no reason why SIMFED should not have purchased the same grade of pipes for IFCD at lower rates.

7.5 Loss to Government due to imprudent purchase of pesticides

The practice of local procurement of pesticides at higher rates instead of direct procurement from the manufacturers not only defeated the objective for which SIMFED was set up but also caused loss of Rs.7.43 lakh to the Government.

7.5.1 The Sikkim State Co-operative Supply and Marketing Federation Limited (SIMFED) functions as a canalising agency for bulk procurement of various agricultural and horticultural inputs required by the Agriculture / Horticulture Departments.

7.5.2 It was seen in Audit (March 2001) that during 1997-98 to 1999-2000, the Manager-I, SIMFED made purchases worth Rs.76.59 lakh (net amount after deducting discount) from various local suppliers towards supply of pesticides indented by the Agriculture and Horticulture Departments when these purchases could have been made directly from the manufacturers at Rs. 69.16 lakh only. Thus, the local procurement at higher rates instead of bulk procurement from the manufacturers not only defeated the objective for which the Federation was set up but also caused a loss of Rs.7.43 lakh to the Government.

7.5.3 The Managing Director (MD), SIMFED stated (July 2001) that local purchases were resorted to as the suppliers offered credit facility which was required as the indenting departments do not pay advance with the orders placed with the SIMFED and the bills of suppliers were settled after six to ten months. The reply is not tenable as the SIMFED did not explore the possibility of obtaining similar credit facility from manufacturers. Besides, to tide over this problem, SIMFED could have insisted from the indenting departments 80 per cent advance payment with every order as was the practice followed by the State Trading Corporation of Sikkim, an agency performing similar functions as the SIMFED. If the purchases were to be made locally, the services of SIMFED would not be required as in that case the departments could themselves handle their procurement tasks without the help of a specialised agency.

7.5.4 The reply of the MD, SIMFED (July 2002) that request for advance payment for supply of pesticides was turned down by the departments, despite orders of the Government in this regard, on the ground that payment could be made only after testing the chemicals was not acceptable as in that case SIMFED should have declined to make the supply thereby protecting its own interest as well as the interest of the Government.